

Enforcement Directive 2004/48 allowing for punitive damages in the EU

CJEU's latest judgement on the calculation of damages in intellectual property disputes and the interpretation of Article 13 of Directive 2004/48/EC on the enforcement of intellectual property rights

On Wednesday 25th January, 2017, the CJEU decided on yet another case concerning the interpretation of Directive 2004/48/EC, especially Article 13.

Said article provides for parties whose intellectual property rights have been found to be infringed to cover damages suffered as a result of the infringement.

Several provisions of the Enforcement Directive have been in the spotlight several times and have been subject to interpretations by the CJEU, as of now there seem to be three predominant judgements from the CJEU in this regard.

The first decision concerned the case Christian Liffers vs Producciones Mandarin SL (C-99/15) of March 17th, 2016, in which the Court ruled that damages awarded on the basis of a lump sum do not preclude the party whose rights were infringed from claiming moral damage which the party has suffered.

In the second case, United Video Properties Inc. vs Telenet NV (C-57/15) of July 16th, 2016, the CJEU ruled that, based on article 14 of the Enforcement Directive, flat-rates for damages provided by national legislation may not be set so low as to preclude the successful party from being able to recover, at the very least, a significant and appropriate part of the reasonable costs it incurred due to the infringement of its intellectual property rights. Said costs include amongst others the attorney fees.

This case is particularly relevant for Belgium since the local legislation is based on a flat rate system allowing only a partial recovery of legal and attorney fees. Based on the supremacy of the Directive, the successful party in Belgian IP cases may now claim reimbursement of its attorney fees exceeding the amounts provided for in the local legislation and not covering a "*significant and appropriate part of the reasonable costs incurred*".

The trio is being completed by the recent CJUE's decision in case Stowarzyszenie 'Oławska Telewizja Kablowa' vs Stowarzyszenie Filmowców Polskich (C-367/15), of January 25th, 2017.

The ruling mainly concerned the award of damages following a copyright infringement.

The preliminary question put before the CJUE can be grouped in two:

- 1) Whether the lump sum, awarded to the successful party as damages, may correspond to twice the amount of the fee that would have been due, had the parties concluded a licensing agreement (hypothetical royalty).
- 2) Whether said damages may be awarded without having to proof the causal relationship between the infringement and the loss.

CJUE's reasoning:

The Court taking together Recital 3 and 10 and Article 2(1), held that the Directive sets out a minimum standard of enforcement of intellectual property rights, meaning that it does not prevent Member States from adopting laws that give more protection to intellectual property rights or that are more favourable for the right holder (judgement of June 9, 2016, Hansson, C-481/14, EU:C:2016:419, §§ 36 and 40).

The Court went on examining Recitals 5 and 6 and Article 2(3)(b) setting out the Member States obligations resulting from international agreements when interpreting the Directive. The Court, having regard to the TRIPS agreement (Article 1), the Berne Convention (Article 19) and the Rome convention (Article 2), ruled that neither of these international agreements preclude Contracting States from granting wider protection that laid down in the agreements itself.

Consequently, the Court concluded that article 13(1)(b) must be interpreted as not precluding national legislation, which provides the holder of an infringed intellectual property right (in this case copyrights) to claim damages from the infringing party of a sum corresponding to twice the amount of a hypothetical royalty.

The Court also referred to the Liffers case, for confirmation of its current judgement, stating that "where an intellectual property right has been infringed, mere payment of the hypothetical royalty is not capable of guaranteeing compensation in respect of all losses actually suffered, as it would not reimburse the cost linked to researching and identifying possible acts of infringement, compensation for possible moral prejudice or payment of interest on the sums due."

But, in cases where the payment for loss calculated on the basis of hypothetical royalty will exceed the loss actually suffered, and would constitute an abuse of rights, prohibited by Article 3(2) of the Directive, the Court noted that the national courts in question are not bound to grant such a sum, thereby avoiding such an abuse of rights.

Concerning the second question on proof of causality, the Court held that the Polish system at stake requiring the holder of the infringed right to establish a causal link between the event and, not only the loss, but also the precise amount of such loss amounts to a strict interpretation of the concept of causality and is irreconcilable with the very idea of setting damages by means of lump sums and therefore contrary to Article 13(1)(b) of the Directive, which clearly permits this type of compensation.

The Court then came to the conclusion that Article 13 of the Directive must be interpreted as not precluding national legislation, to allow for compensation of loss calculated on the basis of twice the appropriate fee which would have been due if permission had been given for the work concerned to be used, without requiring the right holder to prove the causal link to the precise amount of loss.



Following the CJUE's case law, the national rules on the enforcement of intellectual property rights have to allow the successful party to an intellectual property infringement case to:

1. recover moral damage sustained due to the infringement (Liffers);
2. recover a significant and appropriate part of the reasonable costs incurred due to the infringement of its intellectual property rights, e.g. attorney fees (United Video Properties Inc. vs Telenet NV);
3. rely on a lump sum provided by national legislation, which may be calculated on the basis of umpteen times the amount of hypothetical royalty, without having to prove the causal link between the infringement and the particular quantum of the actual loss (Stowarzyszenie 'Oławska Telewizja Kablowa' vs Stowarzyszenie Filmowców Polskich).

While the Court commented on the possibility of the lump sum of twice as much as the amount of hypothetical royalty exceeding the loss actually suffered, in which case national courts should not apply such a rule as it would be contrary to Article 3(2) of the Directive, it did not give any comment on a possible contrary scenario, one where such a lump sum, even if corresponding to twice the amount of hypothetical royalty, is insufficient to cover the incurred losses. Following the two earlier cases (Liffers and Telenet NV), it would seem that national courts, facing such a case, would have to award an amount corresponding to all the losses incurred, moral damage, costs sustained due to research and identification of infringements, payment of interests, attorney fees, etc., and not merely one that amounts to twice the sum of hypothetical royalties.

In conclusion, the CJUE is of the opinion that granting punitive damages is not contrary to the Enforcement Directive 2004/48/EC. Since this Directive only provides for a minimum harmonisation in the field of enforcement of intellectual property rights, national legislations may implement diverging conditions for awarding such damages, creating paradoxically new differences for the rights holders in the various Member States.

